



Ms Lisa Baxter
Executive Officer
Economic and Finance Committee
Parliament House
North Terrace
Adelaide SA 5000

3 February 2017

Dear Ms Baxter

Inquiry into Retail Supply Issues Faced by South Australian Primary Producers

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to make a submission to the Economic and Finance Committee Inquiry into Retail Supply Issues Faced by South Australian Primary Producers.

The Australian food supply chain is dominated by the supermarket duopoly. Both farmers and consumers lack bargaining power in this supply chain, with farmers often struggling to obtain reasonable farm gate prices for their produce. In particular, local economies suffer when big players dominate a national supply chain.

The BCCM is of the view that co-operatives have an important role to play in increasing the bargaining power of food producers and food consumers and in the retention and development of the food supply chain in local regions of South Australia. Co-operatives provide concomitant benefits including reinvestment in local and State economies, long term, sustainable employment, increased consumer choice and local procurement.

It is the unique organisational structure of co-operatives, as member-owned and controlled enterprises, that allows producers to collectively bargain with retailers and retain ownership and returns from value-added products in the market supply chain.

Alongside producer co-operatives, retail co-operatives also have a role to play. They can provide scaled markets for local producers. The third largest supermarket outlet in South Australia is The Co-op, in the Barossa Valley. Over 90% of the community are members of The Co-op, and 40% of produce is sourced from local suppliers.

The BCCM is strongly of the opinion that this inquiry should examine whether there are any legislative or regulatory barriers to the formation of co-operatives as viable businesses in South Australia and what can be done to address these systemic barriers.

We note that we have communicated concerns to the South Australian Consumer & Business Affairs in relation to these points.

The remainder of this submission is structured as follows:

1. Recommendations
2. About the BCCM
3. About Co-operatives and Mutuals
4. Producer Co-operatives: Increasing Bargaining Power, Stabilising Farming Communities and Adding Value
5. Retail Co-operatives: Sticky Money and Competition

6. Worker and Multi-stakeholder Co-operatives: Employment and Community
7. Appendices

The BCCM is happy to provide further information or comment on any aspect of this submission.

Yours sincerely



Melina Morrison
CEO

1. Recommendations

The BCCM recommendations move from general recommendations, measures that are needed to enable effective co-operative development generally, to recommendations that are directly focused on increasing the positive role of producer, retail, worker and multi-stakeholder co-operatives in the food supply chain.

1. **The South Australian Government implements the recommendations of the Senate Economics References Committee report into Cooperative, mutual and member-owned firms, in particular Recommendations 3, 6, 11, 13 and 15 (see Appendix A).**
2. **The South Australian Government eliminates all and any barriers that prevent co-operatives competing on a level playing field with other business structures, particularly grant eligibility and informational barriers (see Appendix B).**
3. **The South Australian Government fund an economic study of the existing and potential economic and social contribution of South Australian co-operatives, steered by a reference group comprising South Australian co-operative leaders from the agricultural, finance services and other sectors, researchers and political leaders.**
4. **The South Australian Government support the formation of new producer co-operatives and support existing producer co-operatives through a program of grants or low-interest loans (similar to NSW Treasury loans for co-operatives). Funding should be focused on start-up costs or investment in local value-adding operations.**
5. **The South Australian Government works with existing South Australian retail co-operatives to identify potential retail co-operatives and provide grants or interest-free loans for selected start-up retail co-operatives.**
6. **Regionally based worker co-operatives and multi-stakeholder co-operatives also be eligible for any grants or other programs that would be open to producer or consumer co-operatives.**

2. About the BCCM

The BCCM is the peak body for Australian co-operatives, mutuals and member-owned businesses. The BCCM represents a diverse range of businesses operating in sectors

including agriculture, finance and banking, insurance, motoring services, health services, community housing and retail.

The BCCM advocates for recognition of the sector and for measures that create a level playing field between co-operatives and other businesses, including implementation of the recommendations of the Senate Economics References Committee report into Cooperative, mutual and member-owned firms.¹

3. About Co-operatives and Mutuals

Co-operative and mutual enterprises (CMEs) are a significant contributor to the Australian economy: 8 in 10 Australians are a member of at least one CME and annual turnover of the top 100 CMEs (excluding member-owned superannuation funds) reached \$30.5 billion in FY2014/2015.²

The distinguishing feature of co-operatives and mutual entities, compared with other corporate entities, is that they are owned and democratically controlled by their members for their own benefit. Members must contribute to or use the services of the CME.

For example, farmers may form a co-operative to help them to build a processing plant for their produce that no single farmer could afford. The benefit of the plant would flow back to the farmers as members of the co-operative who use the processing plant (both in terms of cheaper or more reliable processing costs, and in reinvestment or distributions of surpluses from processing operations). In contrast, if processing was undertaken by an independent investor-owned company, business decisions will be made based on what will maximise returns for the investors, regardless of the consequences for farmers aiming to process their produce affordably. Furthermore, the Board and the investors are typically located outside of the region where the business operates. In a co-operative, being locally owned and controlled, surplus profits are reinvested in place.

The Senate Economics References Committee report into Cooperative, mutual and member-owned firms found in favour of the local economic development functions of co-operatives: '[t]he committee notes the sector's potential contribution to the economy while still delivering for the community and continuing to provide its traditional sense of ownership for its membership...It is a model which is highly flexible and adaptable to local conditions and circumstances.'³

Co-operatives must subscribe to the seven co-operative principles as set out by the International Co-operative Alliance.⁴ In Australia, CMEs may operate under a state/territory based co-operative law (the Co-operatives National Law, except in Queensland) or under the Commonwealth Corporations Act. When operating under the Corporations Act, whether or not a CME is a co-operative will depend on the content of its rules.

One way of categorising co-operatives is by their membership: producer, consumer, worker or multi-stakeholder. In this submission we consider in turn how producer, consumer and worker and multi-stakeholder co-operatives can contribute to addressing issues faced by South Australian primary producers.

¹http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives/Report

² Business Council of Co-operatives and Mutuals, National Mutual Economy Report 2016, 17.

<http://bccm.coop/wp/wp-content/uploads/2016/11/BCCM-NME-Report-2016.pdf>

³ Senate Economics References Committee report into Cooperative, mutual and member-owned firms, 25.

⁴ <http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>

4. Producer Co-operatives: Increasing Bargaining Power, Stabilising Farming Communities and Adding Value

There is a long history of co-operatives in Australia, including in agriculture. The first Australian agricultural co-operative, the South Coast and West Camden Co-operative Company, was formed in the 1880s; the motivation was to cut out the middleman between sellers and buyers.

South Australia also has a strong co-operative pedigree. Some of the top CMEs in South Australia today are:

- AlmondCo Ltd (agriculture);
- Lenswood Cold Stores Co-operative Ltd (agriculture);
- CCW Co-operative Ltd (agriculture);
- Community Co-op Store Nurioopta (retail);
- Master Butchers Co-operative Ltd (purchasing);
- Credit Union SA Ltd (financial services);
- People's Choice Credit Union (financial services);
- Police Credit Union Ltd (financial services);
- Beyond Bank (financial services);
- Health Partners Ltd (health fund); and
- RAA SA (motoring services).

Combined, these CMEs had a turnover of over \$1.5 billion in FY2014-15.⁵

Co-operatives continue to enable individual farmers in Australia to deal with competitive economic environments at a domestic and global level. The role of co-operatives in facilitating the competitive supply of products by producers to retailers was noted in the Harper Review of Competition Policy Final Report: 'Raising awareness of co-operatives, will promote their use and *potentially strengthen the bargaining position of small businesses dealing with large businesses.*'⁶ The Commonwealth Government has recognised the potential of co-operatives for agriculture with the funding of the Farm Co-operatives and Collaboration Pilot Program (FCCPP).⁷ The Agricultural Competitiveness White Paper, which announced the FCCPP, stated:

*'The benefit of a cooperative structure is it offers family farmers the ability to retain their property ownership but delivers them the scale to better influence what happens beyond the farm gate, and diversify their income. Farmer-owned cooperatives can also add competition in the market place if they add to the number of participants, and allow farmers to engage in additional parts of the value chain where profitable to do so.'*⁸

⁵ Business Council of Co-operatives and Mutuals, 2016 National Mutual Economy Report, 76.

⁶ Competition Policy Review Final Report, 86.

http://competitionpolicyreview.gov.au/files/2015/03/Competition-policy-review-report_online.pdf

⁷ <https://farmingtogether.com.au>

⁸ Agricultural Competitiveness White Paper, 28.

<http://agwhitepaper.agriculture.gov.au/SiteCollectionDocuments/ag-competitiveness-white-paper.pdf>

Co-operatives can stabilise farming communities and food supply chains. Co-operatives focus on their members; this means that the operations and capital of a co-operative are usually tied to a geographic area, even during an economic downturn. Producer co-operatives can potentially move into any number of areas across the food supply chain including:

- Packing, manufacturing and processing;
- Marketing and front of house sales;
- Distribution/transport;
- Information and back office services for members;
- Data collection, research and development; and
- Collective input buying.

When a producer co-operative moves into new parts of the supply chain it will do so to benefit its members, that is, growers or farmers. At the same time, producer co-operatives can also provide a boost to local manufacturing, transport, construction, management and professional services employment. In sum, producer co-operatives provide steady growth in the local economy.

Producer co-operatives may also contribute to making production of niche products viable for farmers.

Australian and South Australian Examples of Agricultural Co-operatives

Co-operative Bulk Handling (CBH), based in Western Australia and with over 4000 grower-members, has revenue of close to \$4 billion and is responsible for the transport and marketing of a large part of Australia's grain.⁹ CBH was founded in 1933 in the wake of the Depression in order to provide efficiencies in grain transport for struggling growers. CBH successfully adapted to the deregulation of the domestic grain market in the late 1980s, eventually merging with Grain Pool of Western Australia and moving into new parts of the supply chain including marketing and a joint flour milling venture across South East Asia.

Dairy farmer co-operatives like Murray Goulburn (formed 1950) and Norco (formed 1895) process and market a significant share of Australia's milk and have broken into important export markets. Norco has even begun exporting fresh milk to China.¹⁰ The use of a co-operative structure has helped dairy farmers to maintain bargaining power with retailers even in a difficult domestic and global economic environment.¹¹ Co-operatives have been important in setting a floor price in the dairy industry as a whole after deregulation.

Two important South Australian producer co-operatives are Almondco Australia Ltd and Lenswood Cold Stores Cooperative Society Ltd. Almondco was formed in 1944 and its membership comprises more than 85% of Australian almond growers. It was recently recognised for its export excellence at the Australian Export Awards.¹² It is a vertically integrated enterprise that purchases, processes and markets the almonds of its members. Almondco has primary and secondary processing plants at Lyrup and Renmark in the South

⁹ For further background on the Australian grain sector and CBH see Business Council of Co-operatives and Mutuals, 2016 National Mutual Economy Report, 33-37.

¹⁰ See this case study of Norco, including its move into fresh milk export: <https://www.usq.edu.au/research/research-at-usq/institutes-centres/acsbdb/projects/farm-business-futures>

¹¹ On some of the dynamics of the dairy industry and dairy co-operatives see Bradley Plunkett, Fabio Chaddad and Michael Cook, "Challenge Dairy Co-operative, 2000-10: in pursuit of control of the last litre of milk" in Tim Mazzarol et al (ed), *Research Handbook on Sustainable Co-operative Enterprise* (Edward Elgar Publishing, 2014), 88-9.

¹² <http://www.almondco.com.au/blog/australian-export-awards-winner-2016/163>

Australian Riverland region. Profits are almost all distributed to members, with a small dividend paid on shareholdings.

Almondco has expanded rapidly in the past 15 years but has identified further opportunities to improve returns to its member-growers including through investment in new technology, new value adding processing plant and developing its own packing operations.

Lenswood, formed in 1933, stores, packs and markets 70% of South Australia's apple crop. Its members are located in three regions: Adelaide Hills, Limestone Coast and Riverland.

These Australian and South Australian agricultural co-operatives secure the livelihoods of their members and ensure more aspects of the supply chain take place locally and benefit the local economy, including through providing local employment opportunities.

The South Australian Government has the opportunity to develop policies to encourage the formation of producer co-operatives that leverage off the national Farm Co-operatives and Collaboration Pilot Program.¹³ The FCCPP is a capacity-building program where farming groups can get access to the requisite knowledge for forming producer co-operatives or other collaborative entities and get funding for undertaking feasibility studies.

Co-operatives primarily use retained earnings or debt to fund growth. Government provision of grants, interest-free loans or even funding for the formation of an agricultural co-operative bank would encourage member investment in existing co-operatives, particularly where the next step in the development of a co-operative is capital intensive. Government grants can also play an important role in ensuring the success of start-up co-operatives.

A difficulty for co-operatives is that they are often excluded from existing Commonwealth and state government grant programs for business. Indeed, the Senate Economics References Committee has recommended that government grants and program guidelines be reviewed to ensure that CMEs are no longer excluded.¹⁴

Similarly, co-operatives are not always included on government websites relating to business.

The BCCM has previously undertaken research¹⁵ on both these matters and the recommendations from that research are enclosed in Appendix B.

Hepburn Wind Park Co-operative (Hepburn Wind) provides one example of the crucial role government can play in encouraging the investment necessary for the formation or expansion of co-operatives.¹⁶ Hepburn Wind, formed in 2007, is Australia's first community-owned wind farm. During its start-up phase, a \$975,000 grant from Sustainability Victoria helped cover start-up costs and, crucially, gave members the confidence to invest just under \$10 million in the project. The flow on effects included a \$3.1 million loan from Bendigo Bank. Today, Hepburn Wind is ahead of schedule in paying off its debt, provides local

¹³ We note Recommendation 3 of the Senate Economics References Committee report into Cooperative, mutual and member-owned firms: 'The committee recommends the Commonwealth Government work with states and territories to develop a program of supports to encourage the establishment of new co-operatives and mutual enterprises.'

¹⁴ Senate Economics References Committee report into Cooperative, mutual and member-owned firms Recommendation 11: 'The committee recommends that the Commonwealth Government review, and where necessary amend the eligibility criteria for grants and funds across all government grants and program guidelines to ensure that co-operatives and mutual enterprises are not excluded on the basis of their business structure.'

¹⁵ Business Council of Co-operatives and Mutuals and Linda Seaborn, *The inclusion of co-operatives by Australian governments in business development support*, June 2015: http://bccm.coop/wp/wp-content/uploads/2015/09/Web-Report-_print.pdf

¹⁶ <http://www.embarc.com.au/display/public/content/Hepburn+Community+Wind+Park+Co-operative;jsessionid=855BD23E7DB06EA603B2A4F6D6A8A109>

employment, produces enough energy for over 2000 homes, provides financial returns to its members and funds community projects.

Another precedent for effective government support of co-operative development is the Rural Co-operative Development Grants Program in the United States.¹⁷ Established and startup co-operatives can access support to undertake feasibility studies, education and training and strategic planning through a regional Co-operative Development Centre. The Co-operative Development Centres are funded by grants, matched with membership fees and donations. One example is the Californian Cooperative Development Centre, based in Sacramento.¹⁸

5. Retail Co-operatives: Sticky Money and Competition

Retail co-operatives have a positive impact on securing local supply chains through the 'sticky money' effect. Founded in 1944 as community buyout of a local retailer that was set to close, the Community Co-operative Store Nurioopta Pty Ltd (the Co-op) is a bedrock of the Barossa community. It employs over 350 staff and has 18,100 members. The Co-op was the case study for Ernst and Young's *Sticky Money* report.¹⁹ For every \$1 spent at the Co-op's Foodland outlet, 76c of additional value is created for the local economy. This includes value for local produce suppliers.

Part of the proposition of rural retail co-operatives, alongside member discounts and rebates, is that becoming a member-owner (customer) and shopping at the co-operative will help stabilise the local economy (providing town employment, supporting local farmers etc). The viability and credibility of the retail co-operative rests partly on its use of local suppliers and local supply chains where possible.²⁰ The Co-op has been a vocal supporter of South Australian buy local campaigns.²¹

Retail co-operatives like The Co-op are focused on member and community benefit as part of their business strategy. The Co-op has invested millions of dollars in developing a new shopping centre in Nurioopta, in online shopping and delivery services, and in its supermarket to ensure it retains custom based not only on community loyalty but also on service.²² This significant capital investment from The Co-op has also created local employment.

Retail co-operatives also present a business model that could add diversity and competition to the heavily concentrated retail sector, thereby having a positive impact on the position of suppliers. Retail co-operatives would be most effective, in the short term, at adding competition in communities where the 'sticky money' principle is strongly applicable. Co-operatives operate on a different value proposition to their investor-owned competitors and are less likely to engage in 'price wars' that lead to unreasonable farm gate prices. As outlined above, retail co-operative are also more likely to use local suppliers, since the membership understands this will support the local economy.

Established retail co-operatives like the Co-op also have an important business incubator role in the local economy. The Co-op is the ideal organisation to support development of new South Australian retail co-operatives. It understands agricultural communities, it

¹⁷ <https://www.rd.usda.gov/programs-services/rural-cooperative-development-grant-program>

¹⁸ <http://cccd.coop/>

¹⁹ Ernst and Young, *Sticky Money: Recognising the total value created by Australian Co-operatives and Mutuals*. http://bccm.coop/wp/wp-content/uploads/2014/12/Sticky-Money-Report_EY-2014.pdf

²⁰ See also Nikola Balnave and Greg Patmore, 'Localism and Rochdale Co-operation: The Junee District Co-operative Society' (2006) 91 *Labour History* 47: 'The financial survival of the Co-op became linked to economic sustainability of the town.'

²¹ <http://barossa.coop/co-op-chooses-sa/>

²² <http://www.barossaheald.com.au/story/2325818/new-supermarket-to-meet-the-needs-of-the-future/>

understands co-operatives and it understands the commercial retail environment. However, government can play an important catalysing role in the formation of co-operatives.

6. Worker and Multi-stakeholder Co-operatives: Employment and Community

Worker co-operatives and multi-stakeholder co-operatives can also play a role in developing local food supply chains.

The California Centre for Cooperative Development is assisting with the formation of agricultural worker co-operatives.²³ The Centre has provided assistance to young people and immigrants who lack the resources to buy and run a farm in their own right on forming worker co-operatives. Support for agricultural worker co-operatives would help build rural communities and employment, counteracting a drift to urban centres.

Multi-stakeholder co-operatives provide another vehicle for communities to nurture their local economy. Manchester Veg People is a multi-stakeholder co-operative that supplies local organic produce from farms around Manchester to local consumers.²⁴ Its members are farmers, workers and consumers. Farmer-members are able to plan their production based on the demand of the consumer-members. For farmers, this provides stability and confidence to invest surpluses in new equipment, while consumers benefit from access to extremely fresh produce.

²³ <http://cccd.coop/news/new-generation-farmers-forming-worker-cooperatives>

²⁴ <http://kindling.org.uk/DavidMVP>

Appendix A: Recommendations of the Senate Economics References Committee report into Cooperative, mutual and member-owned firms, March 2016

Recommendation 1

2.32 The committee recommends that the Commonwealth Government ensures that a national collection of statistics and data is undertaken to provide an accurate picture of the scale and extent of the co-operative and mutual sector.

Recommendation 2

3.28 The committee recommends that co-operative and mutuals sector be better represented in government policy discussions, and is actively promoted as a possible option for service delivery particularly where community based initiatives are being considered.

Recommendation 3

3.29 The committee recommends the Commonwealth Government work with states and territories to develop a program of supports to encourage the establishment of new co-operatives and mutual enterprises.

Recommendation 4

3.49 The committee recommends that a mutual enterprise is explicitly defined in the Corporations Act 2001, and its associated regulations.

Recommendation 5

3.51 The committee recommends that the role of directors in mutual enterprises is defined in the Corporations Regulations to align with the proposed definition of a mutual enterprise in the Corporations Act.

Recommendation 6

3.75 The committee recommends the Commonwealth Government work with states and territories to ensure the continual improvement to advice, guidance and information provided at all stages in the establishment, governance and regulation of co-operatives.

Recommendation 7

3.80 The committee recommends that the Commonwealth Government to work with all relevant stakeholders to undertake a program of education and training to inform them about the role of co-operatives and mutuals.

Recommendation 8

3.81 The committee recommends that the Commonwealth Government examine ways in which it can improve the recognition and understanding of the co-operative and mutual sector in the national secondary school curriculum and that tertiary institutions consider the inclusion of co-operative and mutuals in accounting, business, commerce, economics and law degrees.

Recommendation 9

3.82 The Committee recommends that professional accreditation bodies, such as the Law Society and Institute of Chartered Accountants, require a demonstrated knowledge of the co-operatives and mutual structure before it will licence its members to practice accounting or law.

Recommendation 10

3.92 The committee recommends that the Commonwealth Government amend the Indigenous Advancement Strategy to allow registered co-operatives the same access to all levels of grant funding as other entities.

Recommendation 11

3.93 The committee recommends that the Commonwealth Government review, and where necessary amend the eligibility criteria for grants and funds across all of government grants and program guidelines to ensure that co-operatives and mutual enterprises are not excluded on the basis of their business structure.

Recommendation 12

4.17 The committee recommends that the co-operative and mutual sector be considered when the government is preparing a Regulatory Impact Statement that accompanies new regulatory policies.

Recommendation 13

4.18 The committee recommends that the Commonwealth Government liaise with its state and territory counterparts to ensure that the regulatory burden for small and medium sized co-operative and mutual enterprise aligns with the needs of these organisations and ensures they are not disadvantaged relative to companies of a similar size.

Recommendation 14

4.26 The committee recommends that the Commonwealth Government closely monitor the progress of the International Accounting Standards Board in developing solutions to bring co-operative shares under the definition of capital under AASB 132, and, where possible, facilitate equivalent amendments as expeditiously as possible.

Recommendation 15

4.42 The committee recommends that Commonwealth and State Governments support the formalisation of some of innovative market-based approaches to raising capital for small and medium sized co-operative and mutual enterprises, in the form of advice and information, as they become available.

Recommendation 16

4.45 The committee recommends that APRA set a target date for the outcome of discussions with the co-operative and mutuals sector on issues of capital raising and bring those discussions to a timely conclusion.

Recommendation 17

4.49 The committee recommends that the Commonwealth Government examine proposals to amend the Corporations Act 2001 to provide co-operative and mutual enterprises with a mechanism to enable them access to a broader range of capital raising and investment opportunities.

Appendix B: Recommendations made in Business Council of Co-operatives and Mutuals, *The Inclusion of Co-operatives by Australian governments in business development support*, June 2015

Recommendations

1. The Queensland and South Australian sites improve their information about co-operatives to include naming co-operatives in the first instance, and the Queensland site add co-operative information to their for-profit section.
2. The NSW, Tasmanian, Northern Territory and Australian government business development sites be amended to include co-operatives as a business model, including links to relevant information about co-operatives, comparable to other business models.
3. That all state and territory sites include a link to relevant regulatory body sites, and all sites to include a link to BCCM.
4. That a consistent description of co-operatives be adopted and utilised on all Australian government sites.
5. That relevant government programs that do not currently extend to co-operatives be reviewed in order to become inclusive of co-operatives
6. Federal and state governments should ensure that business support funded by government is equally available to provide support to co-operatives and mutuals. This includes ensuring that contracted private sector business advisers have appropriate mutual sector expertise.

For the full report: http://bccm.coop/wp/wp-content/uploads/2015/09/Web-Report-_print.pdf